

Message Text

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TO USMISSION EC BRUSSELS IMMEDIATE

USMISSION OECD PARIS IMMEDIATE

C O N F I D E N T I A L STATE 245943

STADIS////////////////////////////////////

E.O. 11652: GDS

TAGS: ETRD, EC

SUBJECT: U.S. PROPOSAL TO SOLVE EC CANNED HAM DISPUTE

U.S. MISSION EC BRUSSELS - EYES ONLY FOR AMBASSADOR

GREENWALD

U.S. MISSION OECD PARIS - EYES ONLY FOR ASSISTANT SECRETARY
ENDERS

1. FOLLOWING IS TEXT OF BRIEFING PAPER ASSISTANT SECRETARY
MACDONALD WILL CARRY WITH HIM TO BRUSSELS. WHILE PAPER
FOLLOWS GENERALLY AGREED INTERAGENCY POSITION THIS MATTER,
IT DOES NOT HAVE STATE CLEARANCE AND CONTAINS SPECIFICS
TO WHICH WE OBJECT. COMMENTS FOLLOW SEPTTEL.
BEGIN TEXT. SUBJECT: COUNTERVAILING DUTY INVESTIGATION:
CANNED HAMS FROM THE EC. AS YOU WILL RECALL ON JUNE 30,
1975, WE PUBLISHED A PRELIMINARY DETERMINATION UNDER THE
COUNTERVAILING DUTY LAW THAT CANNED HAMS EXPORTED FROM THE
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EUROPEAN COMMUNITY (DENMARK AND THE NETHERLANDS) WERE RE-

CEIVING BOUNTIES OR GRANTS BY REASON OF THE RESTITUTION
PAYMENTS MADE UNDER THE EC'S COMMON AGRICULTURAL POLICY.
WE MUST REACH A FINAL DECISION IN THIS CASE BY JANUARY 3,
1976. EC EXPORTS OF THIS PRODUCT TO THE U.S. ARE APPROXI-
MATELY 250 MILLION DOLLARS PER YEAR, AND ARE OF PARTICULAR
ECONOMIC IMPORTANCE IN DENMARK, THE COUNTRY MOST ADVERSELY

AFFECTED BY THE SETTLEMENT OF THE CHEESE CASE LAST SPRING.

REPRESENTATIVES OF THE EC COMMISSION HAVE MADE IT CLEAR
THAT IN VIEW OF THE SUBSTANTIAL CONCESSIONS THEY FEEL THEY
MADE IN THE CHEESE CASE THEY ARE NOT INCLINED TO TAKE ANY
MAJOR STEPS TO SECURE A WAIVER IN THE HAMS CASE. THEY
FURTHER POINT TO CONDITIONS IN THE U.S. MARKET WHERE
DOMESTIC PRICES ARE VERY HIGH, AND THE EC SHARE OF THE
MARKET IS FALLING. IN THE PAST YEAR EC EXPORTS TO THE
U.S. HAVE DECLINED SUBSTANTIALLY, MOSTLY AS A RESULT OF
INCREASED POLISH EXPORTS. THEY ALSO CLAIM THAT THE EC
PRODUCT IS HIGHER IN QUALITY THAN THE COMPARABLE DOMESTIC
PRODUCT AND THAT THE TWO ARE NOT DIRECTLY COMPETITIVE.
FINALLY, EC RESTITUTION PAYMENTS WERE CUT BY ABOUT 50
PERCENT BETWEEN EARLY 1973 AND NOVEMBER 1974.

THE COMMISSION HAS ASKED THAT BASED ON ALL THESE FACTORS
A WAIVER BE GRANTED WITHOUT A REQUIREMENT FOR FURTHER
ACTION ON THEIR PART.

WE DO NOT BELIEVE WE CAN OR SHOULD ACCEDE TO THAT PROPO-
SAL. UNLESS WE REQUIRE SOME REDUCTION IN THE PRESENT
LEVEL OF RESTITUTION PAYMENTS, WE RUN A VERY STRONG RISK
OF AN ADVERSE REACTION BY INDUSTRY AND IN THE CONGRESS,
WHERE SENTIMENT AGAINST EC AGRICULTURAL PRACTICES REMAIN
STRONG. ON THE OTHER HAND, UNDER THE PRESENT ECONOMIC
CONDITIONS -- ESPECIALLY THE VERY HIGH DOMESTIC PRICE
OF PORK -- WE NEED NOT ASK FOR IMMEDIATE REMOVAL OF THE
SUBSIDIES TO MEET THE STATUTORY WAIVER CRITERIA.

IF YOU APPROVE, THEREFORE, I RECOMMEND THE FOLLOWING
PROPOSAL BE MADE TO THE EC AS GROUNDS FOR AN IMMEDIATE
WAIVER:

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1) A FURTHER REDUCTION OF THE RESTITUTION ON CANNED HAMS
(WHICH NOW STANDS AT 24 UNITS OF ACCOUNT/100 KGS., EQUAL
TO 14.95 CENTS/LB. FOR THE DANES, 19.15 CENTS/LB. FOR THE
DUTCH) BY 20 PERCENT, TO BE EFFECTIVE WITHIN THE NEXT 12
MONTHS.

2) DURING THE WAIVER PERIOD THE ECONOMIC SITUATION OF

THE U.S. SWINE INDUSTRY WILL BE APPRAISED ANNUALLY BEGINNING IN THE FALL OF 1976. THE EC WILL BE INFORMED ON A TIMELY BASIS AS TO WHAT FURTHER REDUCTIONS, IF ANY, WILL BE NECESSARY AS A RESULT OF THOSE REASSESSMENTS. IN MAKING THIS DETERMINATION WE WILL BE GUIDED BY SUCH FACTORS AS: A) IMPORT PENETRATION BY THE EC PRODUCT, INCLUDING SHARE OF U.S. MARKET; B) TRENDS IN U.S. CONSUMPTION; C) CHANGES IN PROFITABILITY OF THE U.S. HOG INDUSTRY.

3) ASIDE FROM THESE ANNUAL EVALUATIONS A REAPPRAISAL AND PROBABLY REQUEST FOR FURTHER DOWNWARD ADJUSTMENT IN RESTITUTION PAYMENTS CAN BE EXPECTED WHENEVER THE "HOG-CORN RATIO" (I.E. THE RELATIONSHIP OF THE PRICE OF HOGS TO THE PRICE OF CORN) FALLS BELOW 15/1. THE PRESENT RATIO IS 21.2/1.

4) DURING THE WAIVER PERIOD THE EC WILL REFRAIN FROM "AGGRESSIVE" MARKETING PRACTICES IN THE U.S.

THE GENERAL OUTLINES OF THIS PROPOSAL HAVE BEEN AGREED TO BY REPRESENTATIVES OF ALL THE U.S. GOVERNMENT AGENCIES CONCERNED (STR, AGRICULTURE, STATE), ALTHOUGH I WOULDN'T BE SURPRISED IF THERE WERE RESISTENCE TO SOME OF THE DETAILS FROM STATE.

WE HAVE ALSO TRIED THIS PROPOSAL OUT, IN A PRELIMINARY WAY, WITH SOME OF THE INTERESTED MEMBERS OF CONGRESS (CONGRESSMAN QUIE, AND SENATORS TALMADGE, CURTIS, AND BELLMON), WITH INDUSTRY REPRESENTATIVES (NATIONAL PORK PRODUCERS COUNCIL, FARMLAND INDUSTRIES, INC.), AND THEY HAVE GENERALLY AGREED THAT IT REPRESENTS A REASONABLE CONFIDENTIAL

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SOLUTION TO THE PROBLEM. THE AMERICAN FARM BUREAU FEDERATION HAS ALSO BEEN ADVISED AND, AS IS ALWAYS THE CASE, WILL NEVER APPROVE ANY SOLUTION THAT INVOLVES A WAIVER OF COUNTERVAILING DUTIES. END TEXT.

2. WE UNDERSTAND SECRETARY SIMON HAS CLEARED THIS PAPER. KISSINGER

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